COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO LOCAL COMPETITION, UNIVERSAL SERVICE, AND THE NON-TRAFFIC SENSITIVE ACCESS RATE	)))	ADMINISTRATIVE CASE NO. 355

O R D E R

IT IS ORDERED that parties as specified herein shall file the original and 12 copies of the following information with the Commission by no later than December 15, 1995.

Automatic service of the entire response on all parties to this proceeding could be overly burdensome. Accordingly, at a party's discretion, a transmittal letter describing the responses may be served on the parties instead of the entire response. The transmittal letter must clearly state that the entire response is available upon written request from any party and will be furnished within 10 days of the request.

Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided already, reference may be made to the specific location of said information in responding to this information request.

All Parties

1. a. Should a Kentucky universal service fund be administered by a neutral third party? Explain.

b. If yes, estimate the cost of having a third party administer the fund.

2. a. Should the National Exchange Carriers Association administer the universal service fund? Explain.

b. If yes, why should an interstate agency be chosen to oversee an intrastate universal service fund?

3. What economic arguments support shielding rural telephone companies from local competition?

4. Pennsylvania has initiated a generic proceeding to establish a new regulatory structure for telephone companies having less than 50,000 lines; North Carolina passed legislation shielding cooperatives from local competition; Wyoming passed legislation restricting competitive entry into the service territory of telephone companies with fewer than 30,000 lines for ten years; and New Hampshire passed legislation shielding telephone companies with fewer than 25,000 lines from local competition.

a. Which of these restrictions, if any, would be appropriate in Kentucky?

b. Are there specific factors which prompted these actions which are particularly applicable to Kentucky? Explain.

5. Will those companies able to separate costs by jurisdiction use separations for the intrastate jurisdiction and average schedules for the interstate jurisdiction?

6. Rural telephone companies may be distinguished by population density or other demographic factors.

a. Have you performed or obtained economic analyses which demonstrate that competition would not be viable in certain exchanges?

b. If yes, provide copies of the analyses and results.

c. Are there specific economic analyses the Commission should perform or consider on this issue?

7. The Federal Communications Commission ("FCC") requires Local Exchange Carriers ("LECs") to comply with Part 32 and Part 64 accounting rules. Should non-LEC competitors be required to comply with these rules by the Commission if a similar action is not taken by the FCC?

8. BellSouth Telecommunications Corporation ("BellSouth") states in its reply to Item 64 to evaluate local competition fully, the outcome of its price regulation plan petition must be known. Does the decision in Case No. 94-121[1] alter any of your previously-stated views? Fully describe.

9. a. Provide copies of any comments you have filed with the FCC concerning number portability.

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[1] Case No. 94-121, Application of BellSouth Telecommunications, Inc. d/b/a South Central Bell Telephone Company to Modify Its Method of Regulation.

b. What is the status of the number portability proceedings at the federal level?

c. Is there a need for an interim solution implemented at the state level as suggested by some parties? Explain.

d. Would an interim solution using remote call forwarding and call routing technologies provide adequate service? If yes, explain in detail.

e. Comment on Metropolitan Fiber Systems of Kentucky, Inc.'s ("MFS") suggestion in Item 17 of its response that Co-Carrier Call Forwarding ("CCF") is more efficient than Flexible Direct Inward Dialing ("DID") and other potential interim methods.

f. Does the lack of interim number portability act as a barrier to competitive entry into local markets? Explain.

g. Do any jurisdictions prohibit number portability? If yes, which states? Provide copies of any documents which memorialize such prohibitions and discuss.

h. If the LECs resell service from the wirecenter to the end-user, is number portability still an issue? Explain.

i. If a call routing database is utilized to address number portability, who should administer the database? Explain.

j. Who should own or have controlling rights to an individual telephone number?

10. At page 49 of its response, The Independent Telephone Group ("ITG")[2] states that number portability should not be ordered in rural Kentucky because the costs exceed the benefits.

a. Identify and quantify the possible costs and benefits.

b. What additional costs would result from implementation of existing portability measures?

c. Do new providers consider number portability valuable? Do their potential customers consider it valuable? Explain.

11. BellSouth states that interexchange carriers should be required to pass access charge reductions to their subscribers in the form of reduced rates. Do you agree? Explain.

12. Could competition enhance a LEC's potential revenue growth through increased demand for new products and services not now provided? Explain.

13. a. Estimate the maximum amount that local rates could rise in a competitive environment without a universal service fund. Explain.

b. Could potential rate increases exceed the total Non-Traffic Sensitive ("NTS") payments received by LECs? If yes, itemize and explain the sources and amounts of the potential increases.

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[2] Ballard Rural Telephone Coop.; Brandenburg Telephone Company; Duo County Telephone Coop., Inc.; Foothills Rural Telephone Coop.; Harold Telephone Company; Highland Telephone Coop.; Logan Telephone Coop.; Mt. Rural Telephone Coop.; North Central Telephone Coop.; Peoples Rural Telephone Coop.; South Central Rural Telephone Coop.; Thacker-Grigsby Telephone Company; and West Ky. Rural Telephone Coop.

14. Provide copies of any elasticity studies performed in your service territory to determine how changes in the price of basic telephone service will affect demand for that service.

15. TDS suggests that "The Commission should take the necessary steps to ensure that customers in rural areas do not pay more than the South Central Bell rate for comparable calling scopes."

a. Explain.

b. Does TDS mean for all services? If not, for which services?

c. Would it be appropriate for the Commission to limit LEC rate increases to the level of the BellSouth rates for comparable areas? Explain.

16. Is the traditional concept of "value of service" relevant in determining the degree of subsidy required to support high cost rural areas, or should the concept be abandoned?

17. Most LECs assert that they should be granted compensating revenues if implicit subsidies are removed. If a LEC's return exceeds its authorized rate, is such compensating revenue justified? Explain.

18. BellSouth asserts that the Commission should design a regulatory framework that ". . . shifts the risks associated with a competitive environment from the ratepayers to the shareholders." How would such a regulatory framework apply to telephone cooperatives?

19. a. The following questions are directed to specific LECs:

1. Ballard RTC - What are the unique attributes of the 502-462 exchange which cause only 74.23 percent of the customers to be served?

2. Foothills RTC - What are the unique attributes of the 606-652, 606-673, and 606-686 exchanges which cause fewer than 70 percent of the customers to be served?

3. Logan RTC - Logan has the highest penetration rate in the ITG despite also having one of the highest basic exchange rates. What factors are responsible for the high penetration rates? Quantify any changes in the overall penetration rate in the past five years.

4. Peoples RTC - While each of Peoples' 4 exchanges is significantly below the national average, the 502-965 and 502-593 exchanges are below 70 percent. Can any conclusions about universal service be drawn from comparing those two exchanges with the other two exchanges?

5. South Central RTC - Provide any studies performed for your service areas to determine the reasons for the low penetration rates. If no studies have been performed, explain in detail the factors responsible for the low penetration rates for each exchange.

6. West Kentucky RTC - West Kentucky has 8 exchanges with penetration rates below 75 percent, but one exchange with a penetration rate of 92 percent. Given this variation, what

factors are responsible for the low penetration rates, particularly in the 502-382 and 502-435 exchanges?

7. GTE - GTE shall answer question 58 of the Commission's April 21, 1995 Order.

8. BellSouth - Discuss the specific reasons for the low penetration rates in each of the following exchanges:

Cayce	71.58 percent
Earlington	74.52 percent
Livermore	70.53 percent
Pembroke	76.33 percent
Water Valley	77.32 percent
West Louisville	77.31 percent
Wallins Creek	74.77 percent
Warfield	77.06 percent

b. All LECs

(1) Are your current penetration levels adequate, or should they be improved? How could they be improved?

(2) Discuss whether each of the following is an impediment to universal service in your territory and how it should be addressed: (a) Basic local rates; (b) Limited local calling areas; (c) Toll rates; (d) Transient population; (e) Installation charges; (f) Deposit requirements; (g) Lack of customer desire to have a telephone.

c. Foothills RTC, Leslie County, Thacker-Grigsby, BellSouth

(1) In which of your exchanges are zone charges imposed?

(2) Are zone charges an impediment to increased penetration? If yes, how should these charges be addressed?

d. Ballard RTC, Thacker-Grigsby and Brandenburg

Given your low basic exchange rate, what actions could be taken to increase your penetration rates?

20. Identify any practical impediments which would preclude a LEC from determining the amount of contribution required to support its universal service and the amount of subsidy supporting its revenue requirement.

Independent Telephone Group

21. Will continued ITG control of bottleneck facilities in their respective areas enable them to engage in predatory pricing or price squeezing? Explain.

22. Do members of the ITG realize profits through cellular investments?

23. Will anticipated ITG losses of local service revenue and customers be offset by returns from their investments in cellular and PCS investments? Explain.

24. Do you agree with the Sprint Communications Company, LP ("Sprint") position on page 7 of its response that CATV, cellular, and other services are not yet economically viable competitors in local communications service markets? If not, explain.

25. Small rural telephone companies are not allowed to provide cable television service in their operating territories except under the rural exemption under 47 CFR 63.56. How many of the ITG companies would qualify under this exemption?

26. On page 50, the ITG argues that "Cable television companies are interested in providing competitive local exchange service in rural areas because they see the opportunity to profit by exploiting the regulated rate structure of the telephone companies." As intercompany revenue transfers allow reduced ITG rates, how are current rates susceptible to exploitation? If ITG rates are subsidized, should they be lowered in order to meet competition?

27. If, as the ITG repeatedly states, wireline telecommunications in rural Kentucky is a natural monopoly, are cost allocations necessary to determine reasonable prices for regulated and unregulated telecommunications services? Explain.

28. On page 70, the ITG states that "Intrastate toll rates will be deaveraged by competitive forces and the Commission cannot prevent it." If, as the ITG suggests, elimination of average rates based on distance is inevitable, should they be eliminated at this time?

29. In the context of wireline competition in rural Kentucky, should "rural" be defined on the basis of population density, access lines, or some other basis?

30. As the rates of most small telephone utilities have not been comprehensively examined since the AT&T Communications of the

South Central States, Inc. ("AT&T") divestiture, interLATA competition, and intraLATA competition, why is a "revenue neutral rate rebalancing" appropriate?

31. a. Will potential increases in local service rates resulting from rate restructuring be mitigated by lower toll rates, with the overall telephone bill of a customer changing very little? Explain.

b. Are continued NTS payments compatible with a competitive environment? Explain.

32. a. Is rural wireline service a natural monopoly? Explain.

b. Is urban wireline service a natural monopoly? Explain.

c. If rural wireline service is a natural monopoly, why must ITG companies be allowed to offer cable services in conjunction with their telephone service if cable companies are allowed to offer telephone service? Explain.

d. You conclude at page 46 that wireline local competition in rural Kentucky is not in the public interest at this time. Is this assertion limited to facilities-based competition or does it include "resale"? Explain.

e. If the ground rules for competition are developed prior to the certification of new market entrants, would your conclusion be different? Explain.

f. Identify and discuss the "natural cost characteristics" which are particularly pronounced in low density service areas? How do they differ from cost characteristics in urban areas?

g. Would the ITG companies object to a price cap plan similar to that of BellSouth? Explain.

h. Explain why rates must be "revenue neutrally restructured" if the ITG companies were to enter a price cap plan.

i. Does the ITG maintain that a price cap plan is or should be a prerequisite to local competition in the rural areas? Explain.

j. Provide all citations to orders in other jurisdictions which allow rural telephone companies to enter price cap plans with revenue neutral rate rebalancing.

33. The ITG discusses Rural Utility Service ("RUS") mandates regarding average rates and area coverage. What actions are you taking at the federal level to comply with these mandates?

34. On page 46 of the first response, you state that "Telephone companies must be free to restructure their rates in very fundamental ways to reflect competitive reality and economic costs." Identify and justify the specific proposals the ITG believes are necessary to accomplish the restructuring.

35. Refer to page 48 of your first response.

a. In many price cap plans, including BellSouth's, in Case No. 94-121, an investigation of the appropriate future level of rates is a part of the approval process. Why should the Commission treat requests from ITG members differently?

b. How long will it take for switched local competition to affect rural areas?

c. Explain why a transitional incentive regulation plan similar to BellSouth's adopted in Case No. 10105[3] would not be appropriate while rural competition develops.

d. Several jurisdictions, including Florida, North Carolina, Texas, Utah, and Wyoming, protect small rural telephone companies from switched service competition for a period of years if the companies do not compete outside their franchised areas and, in some cases, if the companies remain under rate of return regulation for that period. Is this a reasonable alternative for members of the ITG? Explain.

36. Would a price-cap plan be reasonable, if, as asserted by ITG, telecommunications in rural areas are a natural monopoly and switched service competition should not be allowed in rural areas? Explain.

37. On page 49 you discuss the need to protect LECs from large, national companies. If rates are based on costs, why would small rural telephone companies need to be protected from competition? In this context what is meant by "Market Power"?

38. If rate subsidies were eliminated, would the LECs be better able to compete? Explain.

39. If wireline service in rural areas is a natural monopoly and the competitive challenge to ITG members will come from

[3] Case No. 10105, Investigation Of The Kentucky Intrastate Rates of South Central Bell Telephone Company, Inc.

wireless service, how will the regulated rate structures of the ITG encourage rather than discourage competition?

40. Identify the specific instances in which ITG members have been deprived of revenues to maintain and enhance their networks to which you refer on page 54. How has this affected utilities' profitability?

41. In a given market where resale is the only competitive alternative, would the incumbent provider have market power? Explain.

42. a. Is market power based solely on the number of competitors in a market? If there are other factors, explain.

b. Does control of the sole access to an end-user's residence confer market power on the provider of that pathway? Explain.

43. a. Would the combined ability to provide cable television and local exchange service produce excessive market power for the small rural telephone companies? Explain.

b. If small LECs are relieved from rate-of-return regulation and become the sole providers of telephone and cable TV service, what protections would exist to ensure fair, just, and reasonable rates?

44. If the Commission develops a universal service fund for high cost providers, could the Carrier Common Line Charge ("CCLC") be eliminated? Explain.

45. Explain the assertion that the dominant/nondominant classification system was an ineffective basis for establishing intrastate, interLATA toll competition.

46. How can the rates for basic local service for the ITG members be residually set without jurisdictional separations and cost studies? Explain.

47. On page 74, you state that shareholder returns on investments have been limited to a very low level. Have members of the ITG sought rate relief in order to enhance these perceived low levels?

48. Do NTS payments exceed those amounts needed to fund universal local service for some ITG companies? Explain.

49. For the period 1990 through 1994, provide the revenue and customer losses due to cellular competition by year by company.

50. Are returns, realized by ITG companies from cellular operations they own, recorded on the books so that they accrue to the benefit of the local ratepayers who financed the ventures? Do any of the returns support universal service? Explain.

51. The ITG argues that small telephone companies are making "Commission mandated investments to provide universal service that are not necessarily justified in a competitive market." To what specific investments does this refer?

52. The ITG asserts that "no valid public policy basis exists for supporting large company rural customers but not small company rural customers."

a. Given that the ITG proposes revenue neutral rate rebalancing, does the ITG support maintaining the present level of subsidy to its members?

b. As many ITG members' residential rates are lower than BellSouth's, should intercompany subsidies be limited so that the small LECs' residential customer rates are comparable to BellSouth's basic residential rate? Explain.

53. Identify the owners of any ITG companies which own cable TV systems. Do the telephone and cable TV systems share certain facilities and manpower? May other ITG members establish similar arrangements?

54. Are rates of small LECs' business customers subsidized by access rates? Explain.

55. The ITG suggests "limited continuing regulation to guarantee the protection of rural ratepayers" and revenue neutral rate rebalancing. Explain the type of regulation contemplated and define what is meant by "guarantee." From whom should rural ratepayers be protected?

56. The ITG proposes a Kentucky Subscriber Line Charge that would include a yearly adjustment for inflation. Explain why an inflation adjustment is necessary and equitable.

57. Which ITG members' residential rates are below incremental cost? Provide the incremental cost of local service to those members and the studies that produced this information.

58. On page 84, the ITG has "fully set out an alternative regulatory framework which will meet all valid regulatory objectives."

a. Does the ITG assert that earnings regulation is no longer a valid regulatory objective? Explain.

b. Why have none of the ITG companies filed under KRS 278.512 to be relieved from earnings-based regulation?

59. Should investor-owned utilities and Rural Telephone Cooperative Corporations ("RTCs") be distinguished when discussing subsidy flows and alternative forms of regulation?

60. Are cost allocations as required by the relevant manuals no longer appropriate? If so, what factors have changed since cost allocations were adopted?

61. a. Should the statewide authorization of local service competition allow LECs to enter the local service areas of other LECs?

b. If yes, what regulation should the Commission adopt to encourage small LECs to enter other LEC's service areas?

ITG, TDS companies, and AllTel

62. a. Is it reasonable to base local service interconnection charges on the "long run incremental cost" of providing the capacity to originate and terminate traffic?

b. Explain how the price would be determined under the capacity methodology and your alternative methodology.

c. How will average schedule companies determine the long run incremental cost of capacity?

63. Explain the advantages and disadvantages of a "bill and keep" settlement arrangement. What other arrangements would be appropriate and under what circumstances?

64. Would interconnection charges based upon minutes of use be sustainable in a highly competitive market? Explain.

65. Should local resellers be allowed to offer access to long-distance companies? Explain.

66. Should local service include 1) payphone access lines; 2) blocking of pay-per-call; 3) caller ID; and 4) additional business lines? Explain.

67. Who should receive low income cost support? Should it be limited to low income customers or should institutions such as schools and hospitals be included? How should "high cost area" be defined? How should the proper amount of support for such an area be determined?

<u>BellSouth, GTE, Cincinnati Bell Telephone, AllTel, TDS Companies</u>

68. Do you support the ITG's proposed Kentucky Subscriber Line Charge? Explain. Estimate the amount of such a charge.

<u>AllTel</u>

69. AllTel has proposed to use fully distributed costs to rebalance rates.

a. Explain why this methodology would be more appropriate than long-run incremental costs.

b. Explain why fully distributed costs would be appropriate in a competitive market?

70. Respond to questions 58(b) and (c) and 60(b)-(e) of the Commission's April 21, 1995 Order.

<u>AT&T</u>

71. Refer to Items 2(a)(4)(a) and 2(a)(5)(a) of your response. Identify the local service network functions AT&T believes are currently bundled that should be unbundled.

72. Refer to Item 2(a)(4)(b) of your response. Identify the local service "support systems and billing information" to which AT&T believes it should be allowed equal access.

73. Refer to Item 2(a)(4)(c) of your response. Identify the local service "incidental retail functions" AT&T believes are currently bundled that should be unbundled.

74. Refer to Item 2(a)(5)(b) of your response. Explain the meaning of "co-carrier interconnection." This issue is also discussed in other items that should be considered in the response.

75. Refer to Item 2(a)(6) of your response. Explain AT&T's concept of "cost-based rates" -- including any specific methodological approach -- and AT&T's understanding of what "subsidy reform" would require. This issue is also discussed in other items that should be considered in the response.

76. Refer to Item 2(a)(8) of your response. Identify "resale and use restrictions" that should be eliminated and the meaning of "wholesale discounts" -- including any quantifications that are available. This issue is also discussed in other items that should be considered in the response.

BellSouth

77. In response to Item 36(a), BellSouth asserts that intrastate average toll rates are not sustainable in a competitive environment, and that incumbent LECs should not be required to maintain such rates. Does BellSouth recommend total pricing flexibility for intrastate toll rates? Would rate banding by population levels similar to that currently in effect for basic local rates be appropriate?

78. Describe in detail your proposal that stranded investment incurred by the LEC as a sole source provider should be identified and amortized through a universal service funding mechanism. Who should identify the stranded investment and what period of time for recovery is reasonable?

79. According to BellSouth, "the Commission should file a waiver request with the FCC asking to take responsibility for funding the interstate carrier common line ("CCL") revenue requirement out of the USF." What precedent exists for such an action?

80. Provide copies of documents which establish Universal Service Funds in other jurisdictions and explain how they were established, and how they are operated and maintained. Describe in detail how Kentucky can establish a viable fund. Comment on MCI's suggestions.

GTE

81. On page 30, you state that the loss of a presubscribed line to a competitor should not preclude the company from

recovering the Commission-approved investment required to serve that customer. Explain how this recovery would be accomplished.

LDDS

82. In what jurisdictions has structural separation of a LEC's wholesale and retail operations been required as discussed on page 18 of your response.

MCI

83. Provide evidence to support your position stated on page 34 that "internal subsidies generate a far larger level of revenues than is needed to fund the universal service subsidy."

MFS

84. Provide the customer surveys mentioned on page 16.

85. Refer to Item 17.

a. In reference to Co-Carrier Call Forwarding ("CCF"), MFS states that ". . .the shortcomings of this interim solution have been resolved." Explain each of the shortcomings encountered and how each was resolved.

b. Explain in detail the interim solution using remote call forwarding and call routing technologies.

c. Explain your suggestion in Item 17 that CCF is more efficient than Flexible DID and other potential interim methods.

86. Refer to Item 48(a).

a. Explain how basic service price caps should be determined.

b. Is MFS advocating a single statewide rate? Explain.

87. Refer to Item 54(a). Provide the documents supporting footnote 2.

Mountaineer Cellular

88. Provide a copy of the FCC's "five year rule" and any documents issued by the FCC addressing it and discuss its application to this proceeding.

Sprint

89. a. Is the 40 percent reduction mentioned on page 5 due entirely to competition?

b. If no, does it assume imposition of the CCLC on end-users in the form of the subscriber line charge?

c. If yes, what percentage was due to the subscriber line charge?

90. Must the four steps listed on page 19 be implemented before markets are opened to competition? Explain.

TDS

91. If the Commission were to determine that a monopoly carrier is the preferred method for serving rural areas, why would alternative forms of regulation be in the public interest?

Cable Companies

92. What technical and financial barriers to entry do cable companies have to overcome before they can begin to use their cable for supplying switched local exchange services? When do you project these barriers will be overcome?

93. Provide an estimate of the cost per customer to enable your company to provide switched local exchange service and the time frame in which this can be accomplished.

94. Explain whether the LEC local loop is a bottleneck to cable companies given the fact that cable company facilities also enter customer premises.

Done at Frankfort, Kentucky, this 5th day of October, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director